

Business Guide for Iraq

U.S. Department of Commerce

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U.S. Department of Commerce

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This business guide is updated periodically to reflect the current situation in Iraq

I. INTRODUCTION

This guide reports on the considerable progress and opportunities for trade and investment in Iraq's reconstruction. The U.S. Government, including the U.S. Department of Commerce, continues to work with Coalition partners, international organizations, and the business community to facilitate economic recovery through reconstruction contracts, private investment and other business opportunities. General information on Iraq can be found on the U.S. Government's World Fact Book website at www.cia.gov/cia/publications/factbook/geos/iz.html.

II. COMMERCIAL ENVIRONMENT

U.S. Government and Iraqi Ministry contracts continue to be the leading business opportunity in Iraq, although private sector opportunities continue to emerge. The section below outlines the current commercial environment in Iraq that is common to all these forms of business in Iraq.

The Iraqi Interim Government

On June 28, 2004, all governmental authority in Iraq was transferred to the fully sovereign Interim Iraqi Government (IIG). The Coalition Provisional Authority (CPA) ceased to exist on that day although its website (www.cpa-iraq.org/) will be maintained for reference purposes. Although the CPA no longer exists, the laws the CPA established through its 100 Orders make up a significant portion of Iraqi commercial law. On June 29, 2004, the U.S. Embassy in Baghdad officially opened (<http://iraq.usembassy.gov/>).

The IIG (www.cpa-iraq.org/government/press_packet.pdf) consists of a President, two Deputy Presidents, and a Prime Minister who will lead the Council of Ministers and oversee the administration of government. The President will act as the Head of State. The actions of the IIG are governed by the Temporary Administrative Law (TAL - www.cpa-iraq.org/government/TAL.html) and its Annex (www.cpa-iraq.org/government/TAL_Annex.html).

The current laws governing Iraq are a product of its recent history and leadership. Under the regime of Saddam Hussein an established commercial law existed. An analysis of the Hussein regime's commercial law in Iraq can be found at: http://www.export.gov/iraq/pdf/iraq_commercial_law_current.pdf. This law was significantly amended by the orders of the Coalition Provisional Authority (CPA). These orders liberalized the investment and business environment and went far in creating important commercial laws and institutions that are up to international standards. These

orders make up a significant component of current Iraqi commercial law. All referenced CPA orders can be found on the old CPA website at: www.iraqcoalition.org/regulations. On June 28, 2004 sovereignty was handed over to an Iraqi Interim Government working under the Transitional Administrative Law of Iraq (TAL). The TAL exists along side the previous orders of the CPA and forms a kind of interim Iraqi constitution. The Iraqi Interim Government has the authority to draft new laws and repeal laws put in place during the CPA period, with the limitation that the new laws cannot violate the TAL. Article 26 of the TAL provides that the "laws, regulations, orders and directives issued by the Coalition Provisional Authority pursuant to its authority under international law shall remain in force until rescinded or amended by legislation duly enacted and having the force of law." Section one of the TAL Annex states that the IIG "will refrain from taking any actions affecting Iraq's destiny beyond the limited interim period."

The primary responsibility of the IIG will be to administer Iraq's affairs, in particular by providing for the welfare and security of the Iraqi people, promoting economic development, and preparing Iraq for its national elections. These are to take place no later than January 31, 2005. After elections the new democratically elected government will have the power to alter all laws.

Economic Policy

It appears that the basic economic situation of the average Iraqi is better today than it was less than a year ago. According to a recent survey, average household income has risen from \$124 per month in October 2003 to \$214 in June of 2004. Further improvements in income will be dependent on reconstruction efforts, security and sound monetary and fiscal policies by the Iraqi government.

Central Bank and Monetary Policy

On March 6, 2004, the CPA issued Order No. 56 promulgating a new Central Bank of Iraq (CBI) law. The new CBI law establishes a central bank authorized to perform certain monetary functions, manage foreign reserves, act as the government's banker and fiscal agent, issue currency, establish and maintain systems for clearing and settlement of payment transactions, and supervise private banks.

As of January 15, 2004, Iraq's currency was successfully transitioned to the New Iraqi Dinar (NID) (http://www.cpa-iraq.org/pressreleases/20040115_exchange_end.htm). By all accounts, the Iraqis have wholeheartedly embraced their new dinars. Not only are the new notes much more difficult to counterfeit -- a chronic problem under the old currency regime -- the Iraqis now have six denominations available, up from only two. The value of the currency has steadily appreciated since its introduction with a settlement price of around 1,460 dinars per dollar.

On March 1, 2004, the Central Bank of Iraq fully liberalized interest rates on deposits, loans, credits, securities, and all other domestic financial instruments. The CBI previously set these rates. This represents a major step in the development of Iraq's financial system. The decision to liberalize interest rates is facilitating the modernization and development of Iraq's financial system based on market principles.

The CBI also has responsibility over exchange rate policy. The New Iraqi Dinar (NID) is a free-floating currency, however the CBI uses monetary policy to stabilize the NDI against other currencies, especially the U.S. Dollar. It does this through a daily foreign currency auction to stabilize the rate and have let it adjust when needed. The NID has traded very close to 1460 NID to one U.S. Dollar since the beginning of May 2004. For exchange rate history visit the Central Bank of Iraq website:

<http://www.cbiraq.org/cbs6.htm>

In addition to a stable exchange rate, Iraq has been able to stabilize inflation. Not only has inflation, rampant under the Saddam regime, been brought under control, but there has even been a modest fall in prices as indicated by Consumer Price Index statistics for the country. Overall price levels have generally been in decline since December 2003, with the exception of March when a bi-annual rent calculation is made. CPI declined during May 2004 by 1.2 percent. Fuel and lighting prices rose eight percent, furniture increased 4.6 percent, followed by clothes and shoes, transport and communications and tobacco and drinks, which recorded increases of 4.3 percent, 1.7 percent and 1.5 percent, respectively. Commodity groups, such as foodstuffs, medicines and medical services, and other goods and services showed declines in prices in May of 4.5 percent, 2.5 percent and 1.6 percent, respectively. It is important to note that low inflation or modest inflation in the past gives little or no indication about what that index will be in the future.

Fiscal Policy and Trade Balance

Both the CPA and the Iraqi Ministries have successfully acted to ensure that a free and sovereign Iraq is able to function in the community of nations. The CPA released its fiscal 2004 budget in October 2003, available at www.cpa-iraq.org/budget. CPA Order #77 has also created the Board of Supreme Audit in order to ensure ongoing Iraqi Government transparency. A summary of CPA accomplishments can be found at www.cpa-iraq.org/pressreleases/20040628_historic_review_cpa.doc. Many of the Iraqi Ministries have websites and are listed at www.export.gov/iraq/links/index.html.

Iraq's large international debt of over \$116 billion could negatively affect economic growth and future funding of reconstruction by international lenders. The U.S. Government along with the Iraqi Government is negotiating debt reduction with countries and entities that provided loans to Iraq under Hussein's regime.

On June 4, 2004 the Financial Management Law and Public Debt Law were signed. The Financial Management Law establishes a comprehensive framework for fiscal and budgetary policy that comports with international best practices. The Public Debt Law would permit Iraq to replace unsound borrowing practices with a viable market based approach to issuing public debt, under which debt will only be issued as required to finance the Iraqi budget.

Trade Policy

On February 11, 2004, members of the World Trade Organization approved Iraq's request for observer status

(http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm). WTO observer status indicates the international community's confidence in Iraq and it sends a positive message of transparency and predictability to the business community.

A further indication of Iraq's commitment to the global trading community is the recent change in its intellectual property laws. The United States and Iraq currently provide access to each other's patent and trademark laws and application procedures under the terms of the Paris Convention for the Protection of Industrial Property. However, U.S. copyright owners have no access to Iraqi copyright protection, as the United States and Iraq are not members of any of the same copyright treaties. CPA Orders #80, #81, and #83 provide amendments to the current Iraqi intellectual property regime. The amendments help bring Iraq up to current internationally recognized intellectual property standards.

Licensing

While most United Nations and U.S. economic sanctions against Iraq were lifted in May 2003, the Iraqi legal and regulatory system as well as an inadequate infrastructure and an unstable security situation pose numerous obstacles to doing business in Iraq. Up until the end of July, the U.S. Department of Treasury's Office of Foreign Assets Control (OFAC - www.ustreas.gov/offices/eotffc/ofac/) was largely responsible for licensing products for export to Iraq. This jurisdiction has been returned to the U.S. Department of Commerce's Bureau of Industry and Security (BIS - www.bis.doc.gov/) on July 30 as per Presidential Executive Order 13550 and related regulations issued by the U.S. Departments of Treasury and Commerce. BIS can assist companies in determining whether an export license may be required for Iraq. U.S. companies must then work with BIS to obtain the license. United States export licensing requirement for products entering Iraq can be found [through](http://a257.g.akamaitech.net/7/257/2422/06jun20041800/edocket.access.gpo.gov/2004/04-17532.htm) the BIS website at: <http://a257.g.akamaitech.net/7/257/2422/06jun20041800/edocket.access.gpo.gov/2004/04-17532.htm>.

Security

While sanctions as an issue have largely been removed, security continues to be the number one concern of the Iraqi Government and interested businesses. The security situation in Iraq remains serious. Theft and violent crime persist in Iraq, and the potential for attacks against U.S. citizens and facilities remains high. Roads and other public areas can be dangerous for conspicuous foreign travelers. Law enforcement is limited, although Iraqi police units continue to be trained and deployed. The U.S. Department of State issues up-to-date travel warnings for countries throughout the world, and U.S. companies and visitors are advised to carefully assess the situation in Iraq.

Both the Department of Commerce's Frequently Asked Questions on Iraq (http://www.export.gov/iraq/bus_climate/faq.html) and the State Department's Iraq

Travel Warning (http://travel.state.gov/travel/iraq_warning.html) and Consular Information Sheet (<http://travel.state.gov/travel/iraq.html>) contain the essential security and safety information on travel to Iraq.

III. U.S. RECONSTRUCTION CONTRACTS

U.S. Government-funded contracts, as outlined in this guide, continue to be the leading business opportunities in Iraq. Opportunities for U.S. firms to participate in the reconstruction of Iraq are mostly associated with rehabilitating the country's infrastructure. A convenient list of all recent contracts and their known subcontractors, along with links to their website can be found at http://www.export.gov/iraq/market_ops/contracts.html.

Contracting opportunities can be found through five main tendering organizations, discussed below. These are the Project and Contracting Office, the U.S. Agency for International Development, the U.S. Army Corps of Engineers, Iraqi Ministries, and international organizations such as the United Nations and the World Bank.

All contractors conducting work in Iraq should pay particular attention to CPA Order 17 (revised 27 June 2004) with amendments, which outlines contractor's responsibilities as well as their benefits while acting in Iraq. The order continues certain administrative and official act immunities from Iraqi law for non-Iraqi contractors and their non-Iraqi subcontractors supplying goods and services in Iraq under contracts or grants with foreign governments. The order also provides immunity from Iraqi law to international consultants provided by foreign governments to the Iraqi government and officially accepted in that role by the Iraqi government.

Iraq Project and Contracting Office (PCO) (formerly the PMO)

The Iraq Project and Contracting Office (PCO) manages the \$18.4 billion appropriated by the U.S. Congress to support the reconstruction of Iraqi infrastructure. In broadest terms, this office is responsible for all activities associated with program, project, asset, construction and financial management of that portion of the reconstruction effort undertaken by the U.S. The PCO maintains a website (<http://www.rebuilding-iraq.net/>) where contracting activities are reported.

All PCO solicitations, amendments and awards are posted on the PCO website (<http://www.rebuilding-iraq.net/>) as well as the Federal Business Opportunities website (<http://www.fedbizopps.gov/>). View the memo from the PCO website to find valuable information (www.rebuilding-iraq.net/pdf/success.pdf). The Pentagon Renovation Program office, which issued the seven management solicitations, posts helpful information on it's own website (<http://renovation.pentagon.mil/IIRO/IIRO.htm>).

Companies from 63 Coalition and troop-contributing countries were eligible to compete as prime contractors on the first round of U.S.-funded PCO contracts. Please see the Defense Department statement for country listings (http://www.rebuilding-iraq.net/pdf/D_F.pdf). However, for current solicitations, companies from non-terrorist designated countries are eligible to compete for prime contracts. Each solicitation is

subject to the soliciting agency's eligibility requirements. Under PCO more than 30,000 Iraqis are currently employed in reconstruction projects.

Contractors are hired to provide the program management, both on an overall scale, as well as in each of the construction sectors. The sectors are oil, electricity, public works & water, security & justice, transportation & communications, and buildings, education & health. Other contractors are assigned work within those sectors to perform the construction tasks.

Overall, \$12.6 billion will be spent towards construction over the next few years. Building infrastructure is far more than construction, however, and so \$5.8 billion will be spent on providing equipment, supplies and material to help support the entire realm of the infrastructure. Computers are needed to monitor and control electrical and water systems; vehicles are needed to transport materials or to support system maintenance; uniforms and supplies are needed to support the police and civil defense corps; and supplies are needed to support schools.

U.S. Agency for International Development (USAID)

The early role of the U.S. Agency for International Development (USAID) in Iraq was to restore critical infrastructure, support essential health and education services, expand economic opportunity, and improve efficiency and accountability of government. Specific sectors of interest include education, health care, food security, infrastructure reconstruction, airport and seaport management, economic growth, community development, local governance, and transition initiatives. New USAID contracts in the areas of electoral processes and education, government transition, civil society, employment services, health, and education have been announced.

The USAID Iraq website (<http://www.usaid.gov/iraq/>) includes information about contract solicitations and awards. USAID press releases and Weekly Reports contain valuable insight on potential business opportunities.

U.S. Army Corps of Engineers

U.S. Defense Department reconstruction contracts are issued by the U.S. Army Corps of Engineers (USACE). Their primary mission is to restore the capability for oil production, oil refining and gas processing to pre-war conditions. The USACE website (www.grd.usace.army.mil/index.html) offers information on their operations in Iraq, and contracting opportunities.

On January 16, 2004, USACE awarded two contracts worth nearly \$2 billion to continue restoring Iraq's oil infrastructure to pre-war production levels. A north-region contract was awarded to a partnership between Parsons of Houston, Texas and Worley of Australia, and a south-region contract went to Kellogg Brown and Root (KBR) of Arlington, VA. The contracts were awarded on a fully open and competitive basis and replaced the KBR contract awarded immediately after cessation of major conflict to address emergencies. The new contracts are funded by the \$18.4 billion appropriation and will help restore Iraqi oil production, oil refining, gas processing, and distribution.

For information regarding U.S. Department of Defense procurement related to the reconstruction of Iraq, see their Iraq procurement site at <http://www.acq.osd.mil/dpap/iraqreconstruction/iraqcontractinfo.htm>. The DOD issues weekly reports on the status of several key areas in Iraq such as essential services, power production and security. These can be found at www.export.gov/iraq in the "Latest Developments" sidebar.

Finding Partners and Subcontracting Opportunities

The best way to ensure consideration as subcontractors or suppliers on reconstruction contracts is to directly contact the prime contractors, who are entirely responsible for choosing their own business partners. Lists of these contractors can be found clicking on Fiscal Year 2004 at www.export.gov/iraq/market_ops/contracts.html. Small businesses can contact prime contractor representatives listed at http://www.export.gov/iraq/pdf/small_business_reps.pdf.

Companies from all countries are eligible for subcontracts with the exception of countries that support terrorist networks. In general, all contractors should demonstrate experience, financial capability, high competency of in-country personnel, the ability to positively impact the Iraq economy through capacity-generation and employment, and the capability to proceed quickly. Prime contractors and subcontractors are expected to partner with Iraqi firms at every opportunity.

Both the website of the old CPA and the current PCO provide essential advice for getting involved in Iraq reconstruction. Please see http://www.cpa-iraq.org/business/Contracting_FAQs.htm and www.rebuilding-iraq.net/portal/page?_pageid=35,62944&_dad=portal&_schema=PORTAL.

Other Contracting Issues

All contractors and subcontractors who are receiving U.S. government funding, regardless of nationality, are required to provide their employees with workers compensation insurance. This is provided through Defense Base Act coverage. More information can be found at http://www.export.gov/iraq/bus_climate/dba.html.

IV. OTHER CONTRACTS IN IRAQ

Iraqi Ministry Contracts

The Development Fund for Iraq (DFI) is a separate fund from the 18.4 billion appropriated by the U.S. Congress for the reconstruction of Iraq. The money in the DFI comes largely from Iraqi oil revenue. The DFI is still held in the account at the Federal Reserve Bank of New York for the Central Bank of Iraq. A portion of the fund has been transferred to Baghdad, Iraq and used to establish a DFI-Baghdad account at the Central Bank of Iraq for the purpose of meeting cash payment requirements in country for the benefit of the Iraqi people. The DFI is now entirely under control of the Iraqi government and is being used to fund many of the Iraqi Ministry contracts.

Some Iraqi Ministries are tendering their own contracts through the Iraqi Government budget (<http://www.cpa-iraq.org/budget/>). These tenders can sometimes be found on Iraqi Ministry websites listed in the links section of the Commerce Department website (www.export.gov/iraq/links/index.html). Sometimes these tenders are announced in Iraqi newspapers, which can be found at <http://www.onlinenewspapers.com/iraq.htm>.

Iraqi Ministry tenders cover a wide-range of activities from oil-field development and instrument control systems to medical supplies and construction. Please be aware of CPA Order #87, which currently governs all Iraqi public contracts, but not those contracts tendered through the PCO, USAID or other U.S. government agencies. Those contracts are governed by Federal Acquisition Regulations. Following Iraqi sovereignty and as time goes on, these types of tenders will be increasingly important to Iraqi reconstruction.

International Donors

A meeting of donors to raise funds for rebuilding Iraq took place in Madrid, Spain on October 23-24, 2003. The World Bank and the UN presented their needs-assessments for Iraq to the conference, including the areas of health, education, agriculture, water supply and sanitation, economic management, and investment climate. The assessments and cost estimates can be found at www.worldbank.org/iq. These assessments are expected to guide the priorities and direction of Iraq reconstruction by donor countries.

In addition to U.S. contributions, 73 countries and 20 international organizations participating in the Donor's Conference pledged over \$13 billion in loans and grants, including: \$4.9 billion from Japan, \$1.25 billion from members of the European Union, \$200 million from South Korea, \$187 million from Canada; and between \$3 and \$5 billion in loans from the World Bank and between \$2.5 and \$4.25 billion in loans from the International Monetary Fund. Most countries have chosen to channel their funding through a trust fund facility to be managed by the World Bank and the UN entitled the International Reconstruction Fund Facility for Iraq (www.uniraq.org/donors/irffi.asp). Information on these potential tenders can be found at www.unqgm.org. (The United States administers its contributions through the Project and Contracting Office (PCO).)

Other Contracting Issues

Iraqi Ministries have their own requirements for contractors and subcontractors. Defense Base Act insurance coverage is only available for companies working under U.S. reconstruction contracts and does not cover companies working on Iraqi ministry or contracts or in the private sector. Companies should do their due diligence and find an insurance plan that meets their appropriate needs. Insurance is a necessary part of international investment. Some insurance firms are beginning to offer voluntary workers compensation insurance for non-reconstruction projects in Iraq; however premiums can be costly. Companies should work with their existing broker to explore this coverage. The Overseas Private Investment Corporation (OPIC) currently offers three kinds of political risk insurance for Iraqi projects: currency inconvertibility, expropriation, and political violence. In addition, OPIC is also offering coverage more appropriate to

contractors, exporters and those providing technical assistance and management services in Iraq. Finally, OPIC offers stand-alone terrorism coverage. More information on OPIC can be found at www.opic.gov.

V. DOING BUSINESS IN THE PRIVATE SECTOR

Exporting/Trade

Under the former Hussein regime, all trade with Iraq was subject to government strict licensing and inspections. Under CPA Orders # 12, 38, 47, 54, and 70, all tariffs, duties and fees for goods entering or leaving Iraq were suspended through April 15, 2004. The same orders prohibit several exports from Iraq, including many foods products and machinery parts. A list of these products can be found in CPA Order #54. April 15, 2004, saw the beginning of a five percent Reconstruction Levy on all goods shipped to Iraq. Exemptions from this import duty include food, medicine, clothing, humanitarian assistance, and UN Oil-For-Food program imports. Products for the PCO, Coalition Forces, and reconstruction contractors are also exempt. Order #38 contains the full list of exemptions. Additional information can be found at the Iraqi Ministry of Trade website, www.motiraq.org/.

Additional CPA orders also address border and customs procedures as well as authorizations for Iraqis to establish direct relationships with foreign trading agencies and companies, formerly prohibited under the old regime.

Iraq's infrastructure is in the process of being restored. Baghdad International Airport is now open for limited commercial operations. Royal Jordanian Airlines has already begun flying passenger flights to Baghdad. The port of Umm Qasr has been reopened for commerce. Now more than 65 ships unload grain and other goods at the renovated port every month. All 21 berths are now open to ships, and 243 Iraqi Ports Authority guards help maintain security. These modern facilities are serving to boost trade of goods in and out of Iraq.

Investment and Company Registration

Under the Hussein regime, foreign investment in Iraq was restricted by statute to resident citizens of Arab countries. CPA Order #39, issued on September 19, 2003, has significantly altered the international business environment in Iraq by permitting 100 percent foreign ownership and management of Iraqi business entities except in natural resources sectors, including oil, and with respect to insurance companies. The Order provides for equal treatment of foreign investors, foreign trade offices and branch registration, methods of investment, and dispute settlement. The same order also introduces a new requirement for foreign investors involved in retail sales: a \$100,000 deposit in an Iraqi bank for the duration of the retail activity. CPA Order #39 also officially permits foreign investors to hold long-term leases of real property for up to 40 years, but not ownership. At the present time, foreign companies should proceed very cautiously before committing to any long-term lease.

An open investment regime necessitates the capability to legally create and run companies under Iraqi law. The CPA with the concurrence of the Iraqi Governing

Council issued Order No. 64 on March 3, 2003, which significantly amends Iraqi Company Law No. 21 of 1997. Among other adjustments, the amendments allow any Iraqi or foreign person or legal entity to establish or own an interest in a company in Iraq. The amendments also require the Registrar in the Iraqi Ministry of Trade to either approve or disapprove in writing within 10 days any application to register a new company. These new regulations and the appropriate application guide and forms can be found at www.export.gov/iraq/bus_climate/foreign_reg_guide.html.

Iraqi companies now have the ability to raise funds through a domestic securities market. The Iraqi Stock Exchange is a not-for-profit organization independent of the Ministry of Finance. It was authorized by law under CPA Order # 74 and started trading on June 24, 2004. The law also established a Securities and Exchange Commission and Depository Operations Center and was designed to bring international standards to Iraq's securities market. Foreigners are now allowed to hold Iraqi stock. The exchange is currently open for 2 hours a day twice a week. (<http://www.isx-iq.net>)

Under CPA Order No. 49 of February 20, 2004, corporate and personal income taxes have been capped at significantly reduced rates of no more than 15 percent while they were suspended through the end of April 2004. Please see CPA Orders #37, #49, and #84 for a full discussion of the current taxes, their functions and status.

Beginning May 1, 2004, all employers including foreign employers of Iraqi workers may have to withhold tax from the salary paid to their Iraqi employees. Information and forms related to this requirement may be found at www.iraqcoalition.org/taxes/.

As mentioned above, insurance is a necessary part of international investment. Some insurance firms are beginning to offer voluntary workers compensation insurance for non-reconstruction projects in Iraq; however premiums can be costly. Companies should work with their existing broker to explore this coverage. The Overseas Private Investment Corporation (OPIC) currently offers three kinds of political risk insurance for Iraqi projects: currency inconvertibility, expropriation, and political violence. In addition, OPIC is also offering coverage more appropriate to contractors, exporters and those providing technical assistance and management services in Iraq. Finally, OPIC offers stand-alone terrorism coverage. More information on OPIC can be found at www.opic.gov.

Banking and Finance

During the regime of Saddam Hussein, Iraq had a functioning, albeit flawed and tightly controlled financial system whose private banks were prohibited from conducting international transactions. Since the fall of that regime, the government has overhauled the system and created the foundations of a strong liberalized economy. Iraq now has a series of laws that provide for: the independence of the Central Bank of Iraq, the establishment of the Trade Bank of Iraq, liberalization of foreign trade and investment, the establishment of the Iraqi Stock Exchange, anti-money laundering provisions, and further laws on banking and financial management. These laws are being backed by a variety of training programs which seek to provide skills to members of the Central Bank

as well as Iraq's major state-owned banks and private sector banks and introduce them to internationally recognized procedures.

Domestic Banking and Finance

Iraq's six state-owned banks make up most of the Iraqi banking sector. Two of these banks alone, Rafidain and Rashid, account for about 85% of the sector's assets while the other four hold only 5%. These banks, however, have serious insolvency problems, are plagued with non-performing loans and are in no position to do business abroad.

Iraq's domestic financial and banking structure is developing. On October 28, 2003, the Central Bank of Iraq authorized Iraq's private banks to process international payments, remittances, and foreign currency letters of credits. A list of participating Iraqi banks, with points of contact, is available from the CPA website at http://iraqcoalition.org/economy/iraq_private_banks.html.

Licenses are required for anyone to open a bank in Iraq. Under CPA order 40 the number of foreign bank licenses was limited to 6 with limitations on ownership of private banks, but this was rescinded on June 7, 2004 by CPA order 94. There is now no legal limit on the number of licenses that can be granted to foreign banks. Following a request for applications issued in November, Iraq received fifteen applications for a foreign bank license. On January 31, 2004 the Central Bank Governor announced the three finalists for the first set of licenses to be awarded – The Hong Kong Shanghai Banking Corporation (HSBC) and Standard Chartered Bank both from the U. K. and the National Bank of Kuwait, none of which had entered the market as of June 28, 2004. Several of these banks are in talks to purchase stakes in existing private Iraqi banks. It is also possible for foreign banks to operate in Iraq without directly applying for a license, but this requires meeting several conditions including meeting a minimum capital pledge. One example is Jordan's Export and Finance Bank's acquisition of a 49% stake in Iraq's National Bank.

Trade Bank of Iraq and International Financial Institutions

Iraq's state banks are not yet in a position to do business abroad due to their insolvency and Iraq's unresolved international debt. Yet, trade finance and short-term credit was recognized early as essential to the growth of trade in Iraq. For this reason, the CPA established the Trade Bank of Iraq (TBI) as a separate Iraq government entity and export credit agency to facilitate the import and export of a variety of goods and services to and from Iraq. The TBI provides expertise and a point of contact within Iraq for international firms. More importantly it provides trade financial services that other Iraqi institutions are currently unable to offer in order to bolster the confidence of suppliers that payment will be received for the delivery of their goods and services. The TBI works with Iraqi commercial banks and the Operating Consortium, which is a group of international banks led by J.P. Morgan Chase. As of late July, the Trade Bank of Iraq had issued \$1.28 billion on 325 letters of credit to international suppliers in at least 45 countries to enable ministries to import essential goods and equipment. The TBI is discussed in detail in CPA Order #20.

(<http://www.iraqcoalition.org/regulations/index.html#Regulations>)

The TBI also works with the Export Import Bank of the United States and 15 other nation's export credit agencies. In November 2003, the U.S. Export Import Bank (Ex-Im Bank) approved a \$500 million short-term insurance facility for the TBI. Under this facility, Ex-Im Bank insures short-term letters of credit issued by, or on behalf of, TBI in respect of purchases of U.S. goods and services. This facility approved its first transaction under this program on April 28, 2004. Ex-Im is insuring the \$15 million export sale of fogging machines and accessories for insect abatement manufactured by Tifa Ltd. to the Iraqi Ministry of Health.

While Ex-Im is still closed to routine trade finance transactions with respect to Iraq, it will consider applications for exports to Iraq that involve buyers or letters of credit from banks located in third countries. Ex-Im (<http://www.exim.gov/>) is also accepting applications under its Working Capital Guarantee Program for subcontractors providing goods and services to Iraq under U.S. Government reconstruction contracts.

OPIC (<http://www.opic.gov/>) provides funding through direct loans and loan guarantees to ventures involving significant equity and/or management participation by U.S. businesses, at least 25% equity interest. See OPIC's finance page (<http://www.opic.gov/finance/>).

The International Finance Corporation (IFC), the private sector arm of the World Bank, approved plans to establish an Iraq Small Business Finance Facility of up to \$170 million to help Iraqi banks finance small business. More information can be found in its December 19, 2003 press release at www.ifc.org. The IFC is currently working with private contractors and other international bodies to set-up this program. Other international organizations are also providing micro-credit throughout Iraq. ACDI/VOCA (www.acdivoca.org/) and CHF (www.chfhq.org/) are currently active.

The International Monetary Fund has formally recognized the Interim Government of Iraq. However any program to help rebuild the country must first wait for the members of the Paris Club to agree on a relief package for its \$120 billion in debt. Iraq also has some \$80 million in arrears that must be cleared before new funding can be administered, but this problem is reportedly moving towards resolution.

Business Centers and Potential Partners

The CPA and the Iraqi Ministry of Trade established the Iraqi Business Center in Baghdad to provide business services to a growing and eager Iraqi business community. The IBC provides a forum for foreign businesses to find Iraqi domestic partners. U.S. businesses should be cautious and conduct due diligence when working with any partner. The website also provides extensive listings of Iraqi Ministry and Coalition tenders (www.iraqibusinesscenter.org/). The Business Center maintains a database of Iraqi companies interested in international partners at www.ibcguide.org.

The City of Kirkuk, located in the heart of the northern oil industry, formed a robust Kirkuk Business Center that publishes highly informative newsletters (www.kirkuk-

business-center.org). Basra also has a business center which can be reached at 964-0780-109-6729 or through their website at www.basrabusinesscentre.com/. Additional Business Centers are reportedly opening in other cities such as Mosul.

Finding a Partner

The Iraqi Business Center (IBC) provides two databases of Iraqi companies from which U.S. and other foreign companies can find potential partners: one from its own website (<http://www.iraqibusinesscenter.org/>), and the other from the IBC Guide website (<http://www.ibcguide.org/>).

Long-term investment opportunities may exist with the Iraqi State-Owned Enterprises (SOEs). For more information see the SOE company profiles at www.cpa-iraq.org/business/industries/index.html. Watch the Ministry of Industry and Minerals (<http://www.iraqiindustry.com/>) for developments in this area.

VI. CRITICAL CONTACTS FOR BUSINESS

Contract Resources

Coalition Provisional Authority (website now static)
www.iraqcoalition.org/

Project and Contracting Office (formerly the Program Management Office)
www.rebuilding-iraq.net/

Iraqi Business Centers
www.iraqibusinesscenter.org/
<http://kirkuk-business-center.org/>
www.basrabusinesscentre.com/
www.invest-iraq.org/

U.S. Department of Commerce
Iraq Reconstruction Task Force
Tel: 1-866-352-4727
Fax: (202) 482-0980
E-mail: IraqInfo@mail.doc.gov
www.export.gov/iraq

U.S. Agency for International Development
www.usaid.gov/iraq/activities.html - for USAID Iraq opportunities

U.S. Army Corps of Engineers
Tel: 1-866-461-5171, the Defense Department Iraq contract hotline
www.hq.usace.army.mil/cepa/iraq/contracts.htm - for USACE Iraq opportunities
www.hq.usace.army.mil/cepa/iraq/faq.htm - for USACE Iraq contract FAQ

United Nations Iraq Programs

www.devbusiness.com

www.iapso.org

www.iq.undp.org

www.ungm.org

United Nations

Office of the Iraq Oil-for-Food Program

www.un.org/Depts/oip/

Oil-for-Food Contract Inquiries

Office of Peacekeeping and Humanitarian Operations

U.S. Department of State

(202) 736-7733

Government Resources

U.S. Embassy in Baghdad, Iraq

<http://iraq.usembassy.gov/>

Embassy of the United States

APO AE 09316

Baghdad, Iraq

U.S. Foreign Commercial Service

American Embassy, Kuwait

Tel: 965-539-5307/8, Ext. 2392

Fax: 965-538-0281

E-mail: Kuwait.City.Office.Box@mail.doc.gov

www.buyusa.gov/kuwait/en/

U.S. Foreign Commercial Service

American Embassy, Amman, Jordan

Tel: 962-6-592-0101, Ext. 2632

Fax: 962-6-592-0146

E-mail: ammanoffice.box@mail.doc.gov

www.buyusa.gov/jordan/en

U.S. Department of Commerce, Bureau of Industry and Security

Export Counseling Division

Tel. (202) 482-4811

www.bis.doc.gov

U.S. Department of Agriculture

Foreign Agricultural Service

Lee Schatz

Tel: 1-202-690-1180

E-mail: Lee.Schatz@fas.usda.gov

U.S. Department of State
Office of Commercial and Business Affairs
www.state.gov/e/eb/cba/iraq

U.S. Department of State
Travel Warning and Updated Security Information for Iraq
travel.state.gov/iraq.html

U.S. Department of State International Police Recruiting Program
www.state.gov/q/inl

U.S. Department of Treasury
Office of Foreign Assets Control
Tel: 1-800-540-6322
www.treas.gov/offices/enforcement/ofac/

U.S. Department of State, Defense Trade Controls
www.pmdtc.org

U.S. Central Command
www.centcom.mil/